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# The Narrow Tracks of the Portuguese Economy: Labour, Production, Businesses and Markets

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## **The Narrow Tracks of the Portuguese Economy: Labour, Production, Businesses and Markets\***

This text starts with the theoretical premise that diversity is an essential feature of the organization of economies, a position that diverges from the globalist views that have predominated in the social sciences. It moves on to analyse the Portuguese economy through one of its central characteristics, the extensive use of the workforce, arguing that the availability of labour has not led to good entrepreneurial organization, since innovation and inclusion are lacking. Labour is, therefore, the basis of growth, though not of fair redistribution. The dilemmas of the Portuguese economy are additionally affected by what occurs in its limited export markets.

**Keywords:** Portuguese economy; labour; growth; inequalities.

Cold Blood was so disdainful that he even scorned God.  
He explained: "I don't trust ubiquitous blokes."

José Eduardo Agualusa, *Barroco Tropical*, p. 54

### **1. Introduction: National specificities and recognition of diversity**

Analyses of the Portuguese economy frequently raise questions and perplexities that justify careful attention to its specificities. Although questions about the particularities of case studies do not curry favour with established economic views, which value market determinisms and the homogenizing tendencies of so-called "globalization,"<sup>1</sup> the truth is that studies into the specific aspects of certain development models have always had a place in advanced research, contributing to an attitude that is more critical, informed and enlightening.

This is perhaps a crucial moment for the relaunching of proposals concerning the inevitable variability of forms of economic performance (see, for example, Jackson & Deeg, 2006 or Hall & Soskice, 2001), the need to attend to the characteristics – both positive and

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\* Article published in *RCCS* 85 (June 2009).

<sup>1</sup> I have argued elsewhere (most recently in Reis, 2007) that the contemporary social sciences have been hijacked by a "globalist" paradigm that overemphasises international mobility and the rationality of large-scale actors, neglecting the uncertainties, contingencies and territorial capacities that exist on different scales. This "globalist" view, which is essentially theoretical and epistemological, should be distinguished from the concrete globalization phenomena that it overvalues, which are partial and limited, and therefore much less important than territorialized aspects. This distinction between "globalization" and "globalism" is becoming increasingly relevant in various areas of the social sciences, which have emphasised the fact that the intensification of interdependencies between world realities ("globalization") is one thing and the theoretical or ideological narrative about that process ("globalism") another.

negative – of each mode of development and the conditions that may be associated to the launch of new models for the reconstruction of economic and social organization, dramatically thrown into crisis by giddy beliefs that glorify the market, the financial dimension and the notion that the economy can be dissociated from production, wealth generation and the production of collective values.

There is no lack of quality references (for example, Levi & Temin, 2007) to demonstrate that good economic performance requires a stable healthy relationship between growth processes, inclusive forms of employment and the consolidation of equality. Similarly, there is no lack of good references to support the idea that there are routes to economic development that involve the search for appropriate modes of development (Rodrik, 2008) and appropriate institutions — which might mean better adjusted combinations of state and market, or in more rigorous terms, progressively denser institutional configurations that can reinvigorate the economy and society and even constitute forms of “refraction” of the forces that point to simple dilutions in the world economy.

It is certainly not by chance that, despite the place obsessively (or better, uncritically) occupied by the word “globalization” in the language of the social sciences, the most lively debate has always derived from the interest in national models of capitalism, the institutional differentiation that they entail and the margins they ensure for the production of social innovation. It was thus that the German version of capitalism aroused interest in the 1960s, the Japanese style in the 1980s, and that today we regard the Nordic model as the form of economic and social organization more able than the others to deal with the crisis and launch new perspectives concerning the reconstruction of collective life.

This text is only one more point in a continuous line of attempts to observe the “interior architecture” that shapes the Portuguese economy (see Reis, 2007) and that has for some time led many of us at the Centre for Social Studies, University of Coimbra, to adopt Immanuel Wallerstein’s term *semiperipheral* in discussions about the Portuguese specificities, whether social, political, cultural or economic (see Santos, 1993).

I believe that we should keep returning to questions of this nature, and this is what I shall try to do here. My aim is to analyse a set of features that I think are essential to understand the way in which the organization of the Portuguese economy has been evolving, both internally and externally.

From the internal point of view, Portugal is a labour-intensive economy, as I have repeatedly pointed out, a fact that distinguishes it significantly from many others, including those that are most similar to it. This circumstance compels us to question the way companies and organizations integrate labour resources in the wealth creation process, for it is well-known that growth has been essentially dependent upon the incorporation of more people into the labour markets, rather than upon the promotion of positive organizational rationales, which could lead to relative increases in productivity.

It should be added that real labour costs per product unit have kept pace with the development of GDP per worker (over the last decade, the GDP grew 2% a year, on average, while workers' pay increased by 1%), which has enabled growth, unpressured by labour costs, to be based on more work.

In addition to the "protection" that labour availability has conferred on the functioning of the economy, there has also been favourable differential growth in the so-called sector of non-tradable goods,<sup>2</sup> i.e., those that are sheltered from foreign competition and from a necessarily competitive relationship with foreign markets. Our exports are lacking in dynamism and have problems relating to other markets; indeed, the geography of Portugal's foreign economic relations has become quite narrow.

The distinction between internal and external levels is of course a simplification (which I shall attempt to attenuate at the end of the article). Similarly, to paint a complete portrait of an economy would necessarily require much more data than is used here; indeed, I am convinced that the institutions, culture, politics and social context are all crucial if we wish to create a more complex model that is better able to interpret reality.

From here, I shall select some dimensions that appear to me to be essential for the purpose that I have indicated.

## **2. The use of labour in Portugal: An economy with great labour availability**

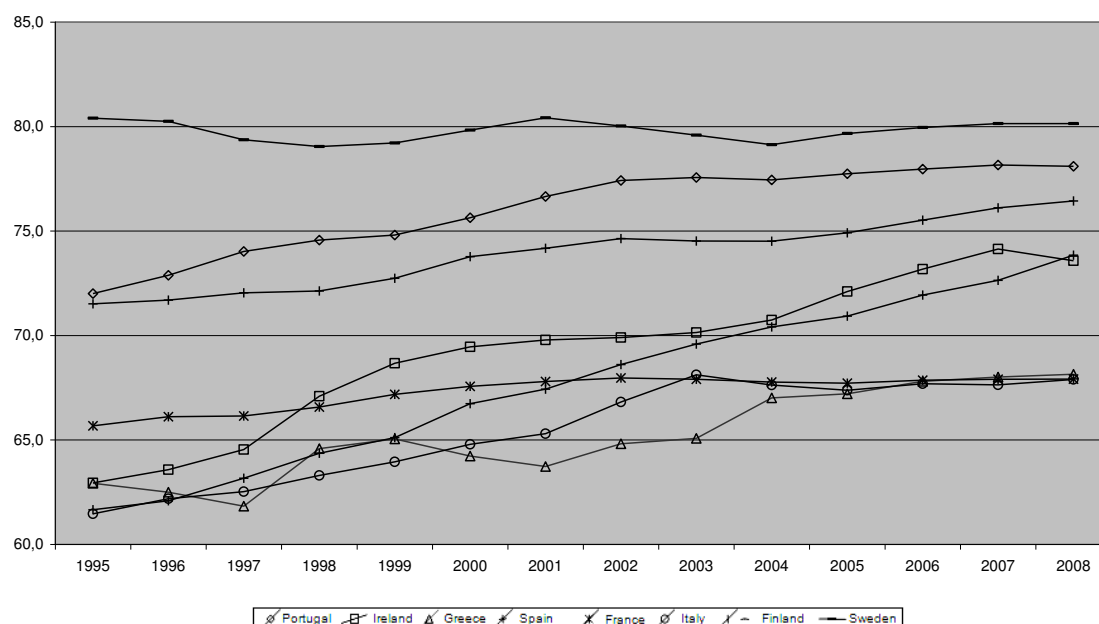
One of the dimensions I believe to be essential for the analysis of the way in which the Portuguese economy is structured from the material, productive and organizational point of view has to do with the incorporation of people into the labour market. Therefore, I shall

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<sup>2</sup> This does not mean that there is an excess of goods and services aimed at the domestic market, namely those related to individual and collective wellbeing (it might be argued that the service part of the Portuguese economy is still smaller than in some comparable economic spaces), to economic externalities and the infrastructuring of the country.

begin by focusing upon the indicator that shows just how labour-dependent our economy is: the fact that, today, over ¾ of the population between the ages of 15 and 54 is in the labour market. This ample “consumption” of human resources (labour force participation) contrasts markedly with other countries of southern Europe (Spain, Greece, Italy, France, etc.), where the rate is generally lower than 70%, and with special cases such as Ireland. The only parallels that can be found are the Scandinavian countries, where the conditions of employment are so radically different that it is unnecessary to justify them. In fact, even that ratio has grown in recent years, showing a difference of around 6% in relation to the EU 27 average. As we know, this circumstance is conventionally considered to be a feature of an extensive growth model.

**Figure 1 – Labour Force Participation, by country (%)**



Source: AMECO database, European Commission

What inferences can we draw from this intense need for labour, which, incidentally, is also demonstrated by the significant rates of immigration over the last decade? Clearly, labour and employment constitute a powerful socialization mechanism in Portuguese society. This is of course positive, and indicates that the recourse to so-called “welfare” instruments is not as critical in Portugal as it is or might be in other societies.

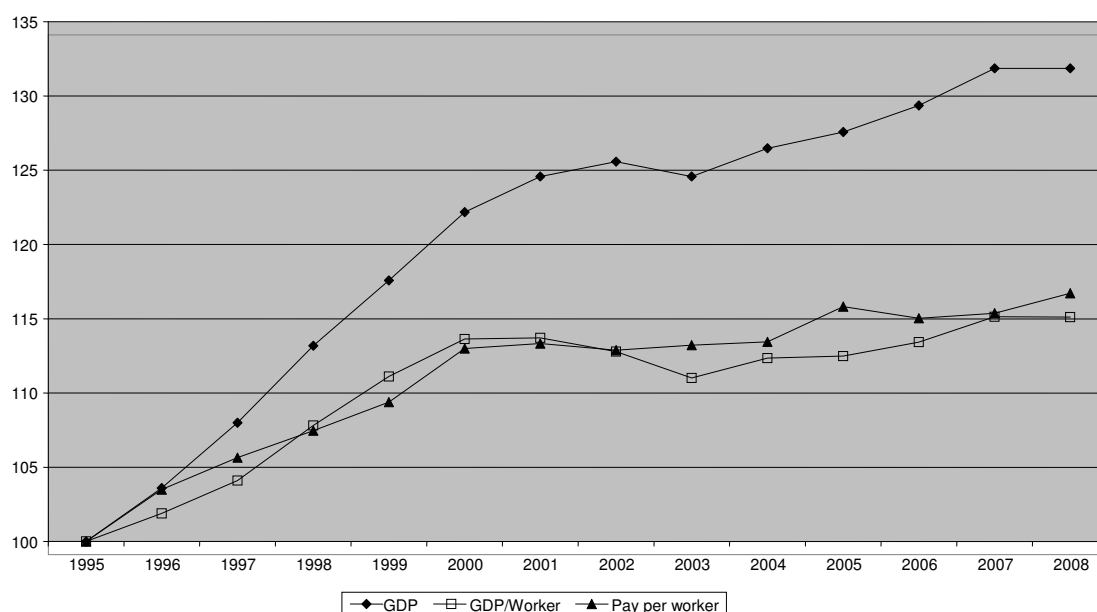
However, it is always useful to think of *the opposite*. Let us imagine that labour force participation in Portugal was today similar to Greece’s. This would mean that over 700

thousand people of active age would be outside the job market. The impact that this would have on business, social policy and immigration are not difficult to imagine. If we took Ireland as a model, this would yield a figure of over 300 thousand. In recent years, these differentials would have been even higher.

It is clear, then, that, in the last analysis, the Portuguese economy has no problem with the quantitative availability of resources, nor are there any significant obstacles to the insertion of people in the collective process of wealth creation. In other words, there are relatively few people outside the employment system, compared to other economies.

Thus, as Figure 2 shows, the real growth in wealth creation achieved in recent years (32% in the period 1995-2008) was around double what it would have been if the employment system had maintained the same volume of labour. In fact, by a similar calculation, we can see that the GDP per worker increased by 15% and the workforce by 14.6%. This situation, involving high labour force participation without a correspondingly high variation in productivity, has few parallels in other European countries. Some countries have seen simultaneous increases in labour force participation and productivity (e.g. Ireland) or significant growths in output without any significant increase in labour (Greece, Slovakia, Slovenia and Finland).

**Figure 2 – Output and pay: Real development**



Source: AMECO database, European Commission

But is the employment system a fair instrument of inclusion and remuneration? I am not referring only to salaries, but more specifically to work integration in positive, synergetic contexts, capable of generating human, technological and organisational advantages.

We should remember that societies that have employment rates similar to Portugal are precisely those which, using quite different mechanisms, have actively promoted insertion into the collective sphere through work, organizing complex and active employment systems. This is the case with the Scandinavian countries, where the employment rates are also around ¾ of the active population.

### **3. Deficits in production contexts: Companies as organizations**

Let us begin with specific data. In 2006, 42% of employment (from a sample of 145 thousand companies, representing 1.7 million workers) was provided by companies with the lowest levels of productivity (in exact terms, the first 25% on a scale of increasing productivity). In the service sector — which has become largely predominant with regard to employment — that proportion is even higher. This means that we have an entrepreneurial structure dominated by situations in which labour is used by labour.

Thus, the results achieved in wealth creation are far from desirable. The so-called “apparent productivity” of Portuguese labour continues to be no more than half the average of the Euro zone countries, and has been worsening rather than improving. This is so despite the fact that much (almost half) of real GDP growth over the last decade is precisely due to the growth in the workforce integrated into the employment system.

When analysing the GDP/worker, more attention is conventionally given to the denominator of the fraction (i.e., labour) than to the numerator (which shows what wealth production capacities are added to the mobilization of labour). This is what we could call a literal interpretation of the concept of apparent productivity of labour. However, Portugal’s low productivity levels show, above all, that labour is not used under conditions that enable it to be fully valued: that is to say, this intense use of labour is not accompanied by a similar mobilization of organizational, entrepreneurial and immaterial circumstances. Therefore, it makes sense to conclude, as others have done (Domingos *et al.*, 2007), that “the gap in the GDP per capita in Portugal basically results from a lack of productivity (and not from the degree of use of the labour factor, as occurs in other European economies, compared to the USA).” The greatest deficit lies, then, in entrepreneurial capacity, judicious management,



and organizational and competitive imaginativeness — possibly even in the social justice present in the wage relation.

If this is correct, radical and global inequalities are being generated in the organizational and productive sphere of the economy, through the predominance of a form of labour integration that is essentially moved by the logic of use rather than by the logic of inclusion and remuneration.

This justifies a further reflection upon other crucial aspects of the relationship between labour and the organizational contexts that use it. One insurmountable issue is the incidence of fixed-term contracts, a form of employment that accounted for 17.6% of all wage earners in 2007 (a level that is higher than in any of the previous years). The use of fixed-term contracts has increased for all lengths of service in the job up to 36 months. Between 1999 and 2007, there was an increase in the probability of new fixed-term contracts being celebrated and maintained for longer. Given the dynamics governing the entry into active life, this phenomenon particularly affects younger workers, although it has extended to all age groups.

For all these reasons, even the last Bank of Portugal Report comes to the following conclusion:

This excessive turnover reduces incentives to invest in education and training on the part of companies and workers, and accentuates the polarization of the labour market, negatively affecting the accumulation of human capital in the economy. The situation is becoming more acute as the polarization affects young workers particularly, that is, those more likely to invest in education and training. (75)

This generation of inequality is also revealed in the well-known fact that the unemployment rate amongst young people has been between double and 2.4 times the average rate of unemployment over the last decade. Since 2004, contrary to previous years, the unemployment rate amongst unqualified young people (those with only 9 years schooling) has been higher than the average for young people. This indicates the significance of the disturbing data concerning the educational level of the population, namely that the number of young people aged between 20 and 24 that have completed secondary education is only 2/3 of the EU15 average (64% of EU27), and the school dropout rate is more than double that of the EU15 (and worse when compared to the EU27).

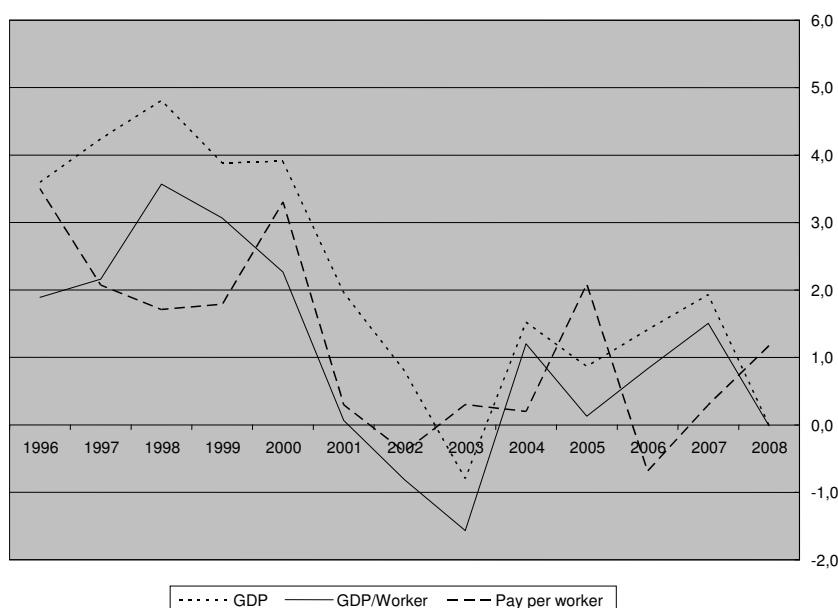
Moreover, indicators showing a growing proportion of part-time workers (10.9% in 2000; 12.1% in 2007) or a stable proportion of workers with a weekly workload of over 45 hours

(13.6% on average annually between 2000-2007) do not point to active, plural forms of valuing work, but rather to a worrying increase in job insecurity.

#### 4. Growth, wealth and distribution

Since 1996, the GDP has grown 2% per year, on average. As a consequence of the situation described above, the real growth in salaries and GDP per worker behaved in a similar fashion – both grew 1.1% per year on average – and significantly different from the total GDP.

Figure 3 – Output and pay: Real annual variation (%)



Source: AMECO database, European Commission

For this reason, Portugal's economic performance cannot be due largely to labour costs. These have generally accompanied productivity, which is about 1% below output growth.

But the truth is that the debate about labour relations is always very sensitive, generating unnecessary misunderstandings. On pages 208 and 225 of the Bank of Portugal Report quoted above, values are presented that are in keeping with those used here (in real terms, as is proper),<sup>3</sup> while on pages 132 and 133, salaries are presented in nominal terms. Thus, we can arrive at the conclusion that there has been an increase in labour costs, which is in fact essentially nominal, and therefore does not justify conclusions of wage excess. In short,

<sup>3</sup> For reasons of compatibility, I use information from the European Commission's AMECO database for international comparisons.

the supposed negative differential between the annual growth in productivity and salaries arises from the fact that the former is given in real terms and the latter in nominal terms.

We have, therefore, to bring into the discussion data that unequivocally show the part that labour plays in the national income. A long-term observation might help put this information into perspective. At the end of the 1960s and beginning of the '70s, when late industrialization became consolidated in a context characterised by a scarcity of labour due to emigration and domestic demand from emerging sectors, over 55% of the wealth produced was due to labour. This was the division of income in 1971.<sup>4</sup> With democratization, in the years following the 1974 Revolution, labour achieved an exceptional position, which would soon be "reabsorbed," and its participation in national income reached its historically lowest value in 1988 (less than 44%) during the process of European integration. Today it is around 50%.

## 5. Portuguese exports: From the world to Iberia?

The observations given above result from my concern about the narrow tracks upon which the Portuguese economy seems to be running. In my view, one complement to what I have discussed relating to the internal plane is that which reveals our export relationship with the international economy.

A prevalent idea nowadays is that markets have become highly globalized. In this perspective, market relations have intensified worldwide, bringing great mobility and independence from institutional, spatial and territorial restrictions. Actors are *footloose*, and commodities even more so. The whole world appears to have become the stage *par excellence* for international trade.

However, this perspective raises some doubts. There are various examples that could be given. The behaviour of Portuguese exports over the last decades offers a good example, given its uniqueness. Exports undoubtedly indicate a significant change in the Portuguese economic contexts. It therefore makes sense to ask what markets present themselves to the goods that a country has to circulate internationally.

A useful starting point might be to ask whether markets are in fact a general and abstract space for trade, which is only conditioned by supply and demand, or whether, conversely, they might be considered a social and economic reality constructed by various interactions,

ranging from personal and territorial to institutional and political. Put in these terms, the question already suggests a response. In fact, markets are complex entities, dependent upon precise contexts, concrete historical circumstances and strongly associated with the modes of collective organization, where social, institutional and political bases are relevant. Thus, they may take on tortuous and even unexpected forms.

### **5.1. The growth of international trade and Portugal's "slowness"**

The perception that we live in times of unfettered transnational bliss is supported by the undeniable fact that, in recent decades, international trade has grown sharply, largely overtaking the growth in the wealth of individual nations, and of course of the world economy. The trend for the opening-up and consequent interdependence of national economies through markets for goods and services is a fact today, and this justifies the great attention given to international mobility. It is not necessary to invoke traditional symbols of the deterritorialization of products and their "subversion" of means that were alien to them before; if this were the case, we might mention the recent wave of Chinese products in Portugal, or the presence of icons of western consumption in emblematic locations elsewhere (such as the repeatedly cited example of McDonald's in Tiananmen Square, right across the Forbidden City).

Let us see how this plays out in Portugal and what we can conclude, globally, by observing our exports. Taking a time scale of around five decades (long enough to get beyond the short term), we can see that Portugal's internationalization through the sale of merchandise abroad only grew significantly at particular moments: during the democratic reconstruction of the economy and in the period immediately preceding and following accession to the EEC.

In fact, exports of Portuguese goods, which in the 1950s and '60s had been around 12 to 13% of the GDP, increased to around 23% of the wealth created in the economy in 2006 and 2007. Despite the significant opening-up, this movement was slower in Portugal than in other economies. The ratio only reached 14% in 1969 and only exceeded 15% after 1980, peaking at 25% during the initial phase of European integration, to be repeated in 1989-90, though rarely reaching 20% in the following years, with the exception, already mentioned, of 2007.

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<sup>4</sup> Cf. Bank of Portugal, Long Series.

**Figure 4 – Exports (% of GDP)**

Source: Bank of Portugal Report, 2007

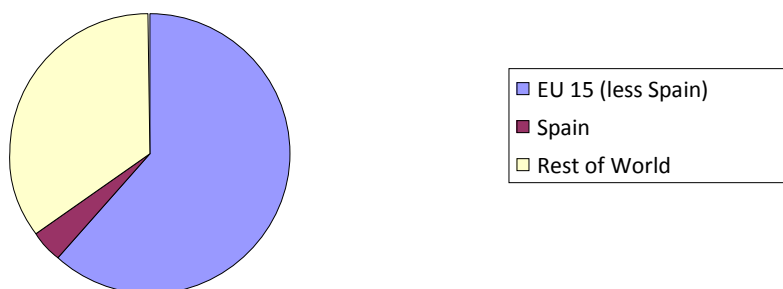
### 5.2. Economic integration: Unlimited markets or the creation of proximities?

At the time of Portugal's accession to the EEC, in 1986, one of the most repeated arguments was that, amongst other things, this meant taking advantage of and accentuating the country's status as a "small open economy" by launching into bigger markets. Notions of openness, mobility and the removal of restrictions prevailed in economic discourse. Instead of "boundless seas," there were now "boundless markets."

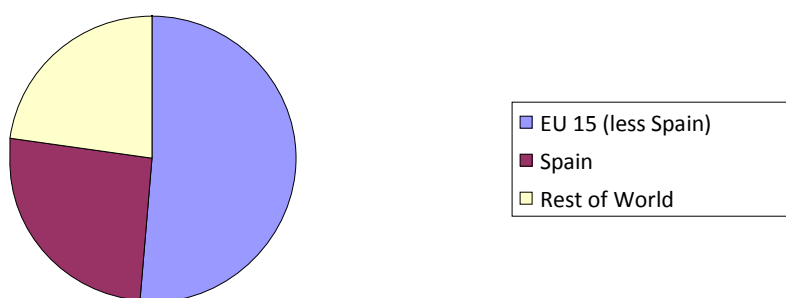
However, as we have seen, the proportion of exports to output did not reach 30%, and merely kept up with the pace of growth of the economy as a whole. Moreover, with accession, there was a significant shift in the geography of Portugal's export markets. What stands out most is the way in which proximity overrode boundless space. The market as space of undifferentiated trade was replaced by a set of relations marked by precise institutional contexts. Spatially, the markets in fact became smaller.

### 5.3. Portuguese exports: The world shrinking to Europe and Europe shrinking to Iberia?

To illustrate this, let us take a look at some figures. Before accession in 1980, our future EU15 partners absorbed 65% of Portuguese exports. Today, this is over 80%. Moreover, three countries alone — Spain, Germany and France — account for over 60% of Portugal's exports.

**Figure 5 – 1980 – Geography of Portuguese exports (in % of GDP)**

Source: Bank of Portugal Report, 2007

**Figure 6 – 2005 – Geography of Portuguese exports (in % of GDP)**

Source: Bank of Portugal Report, 2007

The case of Spain is well known. In 1980, Spain received only 3.6% of Portugal's exports. Today, the figure is 32%. Indeed, this is the starkest example of how a process of integration into a large market (12 countries at first, and now already 27) generated deep relations of proximity instead of broad deterritorialized relationships. Ironically, this proximity and neighbourliness was practically non-existent before. That is the meaning of our Iberization as a process of European integration. This, then, was the most original, though unexpected, result of Portugal's accession to the EEC. Indeed, we might say that, since 1986, Portugal has accessed the world market predominantly through Europe and the European market through Iberia. We should remember that, at the time, Iberization was not one of the subjects debated in the so-called "European option."

Curiously, Spain's steady sustained growth has led to it "replacing" Germany statistically as Portugal's main export market since 1999. This shift further accentuates the impression of proximity creation.

#### **5.4. Corners in a crooked world**

The phenomenon that has occurred in this corner of Iberia is in fact not so different from what has happened between other neighbouring economies. We might cite Germany's trade relations with Austria, Switzerland, Belgium and Holland; France's with Spain, Switzerland and Belgium; or the United Kingdom's with Ireland. In these cases, the relationship is predominantly asymmetrical, as in Iberia, biased towards the stronger power.

Furthermore, it has long been shown that, on a worldwide scale, trade is increasingly taking place within large economic spaces (Europe, America, Asia), while trade *between* them has declined in relative terms. In other words, the world has tended to "regionalize," and in some way to segment through the strengthening of proximity relations. This has occurred on the global scale, and in different "parcels" of the world.

The deepening and growing confinement of Portugal's international trade in EU space and Spain in particular show another dimension of the markets and another dimension of proximity – institutional proximity. Outside the EU27 (indeed the EU15, as its weight in Portuguese exports is practically undistinguishable from the whole of the present bloc) only the United States plays much part as a destination for Portuguese goods, at around 5%. The PALOP countries together (still?) account for around 3%, while Brazil receives less than 1%. We should note that in recent years there has been some diversification. But it remains to be seen to what extent this alters the substantial facts of the geography of Portugal's external trade.

As we have long known, markets are social and political constructs. Rather than an abstract, homogenous and undifferentiated variable "presented" to societies and economies, they are constructions of those economies themselves and their actors, both business and public.

#### **5.5. Foreign markets as gauge of economic capacity**

It is this, in fact, that enables us to take a peek at the future. It would appear that the challenges to Portugal's economic competitiveness should not be measured by the distance

that its products achieve in the space of commodity mobility on the global scale. Exports to China are unlikely to reveal a more adept Portuguese economy than those to Catalonia. But the question of wealth creation (a value validated by foreign economies) continues to be a central issue for Portugal. What the development of the foreign markets has shown is the difficulty of this coexisting with the capacity to create, compete, and produce value.

In recent times, the sectorial specialization of Portuguese exports has altered significantly. As an exporter, Portugal is no longer so dramatically dependent upon textiles, clothing and footwear. Machines and appliances, vehicles and transport material have now largely overtaken the older sectors as sources of exports. And the growth trends of each one of those markets are obviously the reverse. The old image has, therefore, been significantly modified. This is revealed as much by the more visible side of the automotive industry and creativity in the traditional sectors as by the darker side of crises, failure to restructure, and relocations.

However, the result has only been reflected in an improved position of the technological content of Portugal's exported goods because those of intermediate technology have increased in weight, with a consequent reduction in low technology items. As regards high technology, the signs are not positive.

It is trivial, though true, to say that, at these levels too, the solutions are still open. Perhaps they have to be based on our ability to understand better this perpetually intermediate economy — a periphery at the centre — that has been continually unable to develop and maintain creative solutions that can generate value and a capacity for external validation in order to embark on a course that will qualify the workforce and achieve and consolidate better results.

## **6. Conclusion**

This exercise, using and interpreting information that I have collected, may be understood in several ways: as an essay describing the productive dimensions of the Portuguese economy (wealth creation and enhancement of available resources); as an attempt to identify more problematic aspects that deserve redoubled attention; or as an accumulation of perspectives that might help to prospectively define future courses.

Personally, I see it as all three at the same time. But I would like to insist that these are all decisive questions, upon which the future depends. Can the Portuguese economy (i.e.,



businesses and their productive capacities and competitive strategies) continue to rely on the protection afforded by a large labour supply, at the same time that inclusion through work and the stimulation of the economy through pay appear more as an adjustment variable than a constituent variable of a more positive model? Might the protection offered by the domestic market, when this is sheltered from foreign competition, be insistently used, channelling investment into the sectors of non-tradable goods and services and neglecting the competitive capacity revealed by export difficulties, with constant losses of market quotas? In the light of these deficits, might there be other ways of interpreting contemporary dynamics, based on a false state/market dichotomy and on convictions, dramatically revealed as outdated by the present crisis, concerning the reduction of the role of the state in the economy, making it less of an actor in a positive global game than a simple temporary participant who merely intervenes to correct the evils that others have caused?

The debate is open concerning what may not be removed from the process of emergence of new characteristics to configure contemporary economies, so disfigured by the crisis. The construction of new economic institutions forms part of the solution that is being sought to make economies healthier and more fit. Contrary to other opinions, I believe that the responses do not consist in promoting adaptations to relatively abstract institutional frameworks external to the concrete performance and control of economic actors, public and private (as happens with the common globalization argument). From this construction of new institutions, there will certainly appear new social patterns of redistribution of income and orientation of investment. As I mentioned at the outset, we know (Levi & Temin, 2007) that the great phases of modern economic growth were associated with the construction of institutions that promoted increased productivity and a division of income that did away with patterns of excessive wage inequality. It remains to be seen if, in Portugal, we will find a way towards a similar conviction.

*Translated by Karen Bennett*

*Revised by Teresa Tavares*

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